

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-01 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 EA-06 IO-10

NEA-09 OPIC-03 LAB-04 SIL-01 PA-01 PRS-01 USIA-06

XMB-02 /124 W

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R 311245Z DEC 74

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 3589

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS UNN

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY OTTAWA

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E.O. 11652: N/A

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TAGS: EFIN, ENRG, OECD, IMF, EC, SW

SUBJECT: VIEWS OF KRISTER WICKMAN, GOVERNOR BANK OF SWEDEN

REF: A. STOCKHOLM 5666

B. STOCKHOLM 5547

SUMMARY. KRISTER WICKMAN, CHIEF OF BANK OF SWEDEN, MADE FOLLOWING PRINCIPAL POINTS IN COURSE OF MY CALL UPON HIM DECEMBER 30. GOS SUPPORTS US DESIRE TO DEMONETIZE GOLD. DESPITE GOLD STATEMENT IN MARTINIQUE COMMUNIQUE, FEW TRANSACTIONS ARE LIKELY TO BE BASED ON REVALUATION OF GOLD AT MARKET PRICE, GIVEN THINNESS OF MARKET AND UNLIKELIHOOD THAT ANY GOVERNMENT WOULD GUARANTEE GOLD AT CURRENT LEVEL. GOS PREFERS WITTEVEEN MARK II RECYCLING PLAN OVER KISSINGER/SIMON PROPOSALS BECAUSE IT CONSIDERS IT ECONOMICALLY UNSOUND FOR "DEFICIT" CONSUMING COUNTRIES TO FUND RECYCLING FACILITY AND THAT OIL PRODUCERS SHOULD BE BROUGHT INTO SCHEME AS CONTRIBUTORS. AGREEING THAT U.S. POLICY IN MIDDLE EAST HAS BEEN "VERY CONSTRUCTIVE", WICKMAN THOUGHT IT IMPORTANT TO BRING ARAB STATES INTO DIALOGUE ON ECONOMIC AS WELL AS ON POLITICAL SIDE. KISSINGER/SIMON PROPOSALS, IN HIS VIEW, HAD EFFECT OF CUTTING ARABS OFF FROM DIALOGUE, WHEREAS MARK II SCHEME WOULD BRING THEM IN. WICKMAN CONSIDERED IT MORE LIKELY FOR PRODUCERS TO CUT PRODUCTION THAN PRICE. HE SAW RECYCLING AS INTERIM SOLUTION AND THAT LONG-TERM ANSWER WAS FOR CONSUMING COUNTRIES TO EXPAND EXPORTS TO PRODUCERS. SWEDEN HAS LITTLE EXPECTATION OF INFLO OF ARAB MONEY. HE SAW ABRUPT RISE IN OIL PRICE AS ENDING FOR FORESEEABLE FUTURE HOPES TO INTERNATIONAL MONETARY REFORM, BUT HE LOOKED FORWARD TO MORE COOPERATION BETWEEN CENTRAL BANKS WITH RESPECT TO PROCEDURES REGARDING EXCHANGE-RATE INTERVENTIONS. END SUMMARY.

1. IN MEETING DECEMBER 30 WITH KRISTER WICKMAN, CHIEF, BANK OF SWEDEN,

ARRANGED AT MY INITIATIVE, CONVERSATION RANGED OVER GOLD STATEMENT IN MARTINIQUE COMMUNIQUE, SWEDISH PREFERENCES REGARDING NATURE OF RECYCLING FACILITY, POLITICAL RELATIONSHIPS BETWEEN OIL CONSUMERS AND PRODUCERS, REQUIREMENTS FOR LONG-TERM CORRECTION OF PAYMENT IMBALANCE, MODEST SWEDISH EXPECTATIONS FOR RECEIVING ARAB OIL FUNDS, AND POSTPONEMENT OF INTERNATIONAL MONETARY REFORM.

2. GOLD. WICKMAN HAD BEEN SOMEWHAT TAKEN BACK BY CONFIRMATION BETWEEN LIMITED OFFICIAL USE

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PRESIDENTS FOR AND GISCARD AT MARTINIQUE THAT GOVERNMENTS MAY ADOPT CURRENT MARKET PRICES AS BASIS FOR VALUING GOLD HOLDINGS. AGREEMENT SEEMED IN LINE WITH OLD FRENCH DRIVE TO INCREASE VALUE OF GOLD. WICKMAN DOUBTED THAT ANY GOVERNMENT WOULD BE WILLING TO GUARANTEE VALUE OF GOLD, OR THAT CENTRAL BANKS WOULD ACCEPT GOLD, AT CURRENT MARKET PRICE. THERE IS NO REAL MARKET PRICE; PRIVATE GOLD MARKET IS THIN AND MOVES BY CENTRAL BANKS EASILY UPSET IT.

IT IS UNTHINKABLE THAT GOVERNMENT WOULD ACT ON MARKET PRICE OF GOLD. SOME PEOPLE WOULD LIKE IMF TO GUARANTEE PRICE OF GOLD, BUT GOS WOULD BE OPPOSED. NEW GOLD PRICE WOULD NOT BE IN INTEREST EITHER OF IMF OR INTERNATIONAL MONETARY SYSTEM.

3. GOS HAS LONG SUPPORTED U.S. VIEW ON GOLD. LIKE U.S., IT IS NOT INTERESTED IN REMONETIZING GOLD. TRADITIONAL RIKSBANK POLICY HAS BEEN TO HOLD MINIMUM GOLD STOCK, FOR USE AS LAST RESORT IN CASE OF WAR. CURRENT STOCK IS WORTH ONLY SKR 1.1. BILLION (ABOUT \$266 MILLION) AT PAR VALUE.

4. WICKMAN CONSIDERED THAT BAD STEP HAD BEEN TAKEN EARLIER THIS YEAR WHEN G-10 AGREED THAT GOLD, VALUED AT PRIVATE MARKET PRICE, COULD BE USED AS COLLATERAL FOR GERMAN LOAN TO ITALY. RESULT HAS BEEN INDIRECT INCREASE IN PRICE OF GOLD. GERMANS FELT NEED FOR GOLD COLLATERAL IN DEALING WITH FINANCIALLY WEAK COUNTRY LIKE ITALY. BUT, WICKMAN OBSERVED, YOU CAN USE GOLD ONLY AGAINST AN UNFRIENDLY NATION. IF THERE WERE A COMMUNIST TAKEOVER OF ITALY, GOLD COLLATERAL WOULD HAVE SUBSTANTIAL SIGNIFICANCE. IF THERE IS NO BASIC CHANGE IN NATURE OF ITALIAN GOVERNMENT, GERMANS CANNOT USE THE GOLD. WICKMAN COULD NOT EXCLUDE POSSIBILITY THAT COMMUNISTS MIGHT GET PLACE IN ITALIAN GOVERNMENT, BUT THEIR ADMISSION WOULD NOT NECESSARILY MEAN COMMUNIST TAKEOVER.

5. I MENTIONED REACTION OF SHAH OF IRAN TO GOLD STATEMENT IN MARTINIQUE COMMUNIQUE. WICKMAN INTERPRETED SHAH'S REACTION AS DISTRUST THAT CONSUMING COUNTRIES WOULD ATTEMPT TO RAISE PRICE OF GOLD AS MEANS OF REFLATING THEIR ECONOMIES AND TO PAY THEIR OIL BILLS IN CHEAPENED CURRENCIES.

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OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 EA-06 IO-10

NEA-09 OPIC-03 LAB-04 SIL-01 PA-01 PRS-01 USIA-06

XMB-02 /124 W

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R 311345Z DEC 74
FM AMEMBASSY STOCKHOLM
TO SECSTATE WASHDC 3590
INFO AMEMBASSY BERN
AMEMBASSY BONN
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USMISSION EC BRUSSELS UNN
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6. WITTEVEEN MARK II PREFERRED OVER KISSINGER/SIMON PROPOSAL.
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I ASKED WICKMAN ABOUT SWEDISH PREFERENCES AMONG VARIOUS RECYCLING PROPOSALS. HE SAID GOS PREFERS WITTEVEEN MARK II UNDER WHICH OIL PRODUCERS WOULD CONTRIBUTE TO FUND. KISSINGER/SIMON PROPOSAL LIMITS CONTRIBUTIONS TO CONSUMERS BUT WEST GERMANY IS ONLY OECD SURPLUS COUNTRY AND THERE FORE ONLY ONE WHICH CAN MAKE A REAL CONTRIBUTION. HE UNDERSTOOD POLITICAL PHILOSOPHY BEHIND KISSINGER/SIMON PROPOSAL, BUT ECONOMICALLY, HE FELT, IT WAS UNSOUND FOR DEFICIT COUNTRIES TO ATTEMPT TO FUND RECYCLING FACILITY. TAKING SWEDEN AS EXAMPLE, WICKMAN ASKED WHETHER GOS SHOULD LEND TO OR BORROW FROM RECYCLING FUND.

7. INTERRELATIONSHIP BETWEEN OIL AND ARAB-ISRAELI CONFLICT.

I REMARKED THAT I PERSONALLY BELIEVED THAT POLITICAL SETTLEMENT IN MIDDLE EAST WAS PREREQUISITE FOR RESOLUTION OF OIL PROBLEM. IT IS IMPORTANT THAT OUR FRIENDS DO NOTHING TO MAKE SETTLEMENT MORE DIFFICULT. WE ARE ACHIEVING SOME PROGRESS THROUGH WHAT MY OWN GOVERNMENT LIKES TO CALL "QUIET DIPLOMACY".

8. WICKMAN AGREED THAT U. S. POLICY IN MIDDLE EAST HAS BEEN "VERY CONSTRUCTIVE" AND THAT WORK TOWARD A SETTLEMENT MUST GO FORWARD SLOWLY AND QUIETLY. BUT ON ECONOMIC SIDE, YOU HAVE TO PERSUADE ARAB STATES THAT THEIR LONG-TERM INTEREST LIES IN COOPERATING WITH U. S. TO THAT END IT IS IMPORTANT TO TRY TO BRING ARAB STATES INTO A DIALOGUE. KISSINGER/SIMON RECYCLING PROPOSAL FOR CONSUMING COUNTRIES TENDS TO CUT OFF DIALOGUE.

9. I HAD TO DEMUR U. S. DID NOT THINK IT UNREASONABLE THAT CONSUMING COUNTRIES SHOULD HAVE PRUDENCE TO ARRANGE SAFETY NET UNDER THEMSELVES. I DID NOT REGARD KISSINGER/SIMON PROPOSALS AS CONFRONTATIVE, BUT RATHER SENSIBLE ORGANIZATION OF CONSUMER INTERESTS. U. S. WAS NOT PROPOSING ADVERSARY RELATIONSHIP. WHETHER OR NOT THERE IS CONFRONTATION DEPENDS IN LARGE PART ON OPEC COUNTRIES THEMSELVES.

10. I ALSO POINTED OUT THAT OPEC COUNTRIES WERE INVESTING LARGE PART OF THEIR EARNINGS IN U. S. AND OTHER BIG WESTERN CONSUMING COUNTRIES, THE ONLY PLACES WHERE THEIR MONEY WAS SECURE. RECYCLING FACILITY FOR OPEC COUNTRIES PROPOSED BY KISSINGER/SIMON WAS IN EFFECT INSTRUMENT FOR RECYCLING OPEC MONEY.

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11. LONG-TERM CORRECTION OF IMBALANCE.

I ASKED WICKMAN WHETHER HE FORESAW THAT CONSUMERS WOULD BE ABLE TO SERVICE AND REPAY THEIR DEBTS OVER LONG TERM. HE THOUGHT THIS WOULD ONLY BE POSSIBLE WHEN UNDERLYING IMBALANCE IS RIGHTED. RECYCLING IS ONLY INTERIM SOLUTION. ULTIMATE SOLUTION IS TO NARROW DEFICITS BY INCREASING EXPORTS OF CONSUMER COUNTRIES TO PRODUCER COUNTRIES.

12. ACTUALLY, HE THOUGHT, ARABS HAVE DONE RATHER BETTER IN MOVING MONEY INTO CONSUMING COUNTRIES THAN WE HAD GENERALLY FORESEEN AT BEGINNING OF 1974. OPEC OIL SURPLUS HAS BEEN ABOUT \$50 BILLION IN 1974. IN THAT YEAR ALONE, OPEC COUNTRIES INCREASED THEIR AID (WITTEVEEN I AND OTHER ARRANGEMENTS) BY \$10 BILLION.

13. WICKMAN THOUGHT IT WAS IMPORTANT FOR CONSUMING COUNTRIES TO REDUCE OIL CONSUMPTION AS MEANS OF NARROWING PAYMENTS DEFICITS. HE COULD NOT UNDERSTAND WHY GOVERNMENTS, INCLUDING HIS OWN, HAD NOT TAKEN RELATIVELY SIMPLE ACTIONS NEEDED ON THIS FRONT.

14. WHILE WICKMAN WOULD WELCOME A DROP IN OIL PRICE, HE DID NOT CONSIDER IT LIKELY. IF PRICE DECLINES, IT WILL ONLY BE BECAUSE THERE IS A SURPLUS OF OIL. HOWEVER, IT IS MORE PROBABLE THAT OPEC COUNTRIES WILL CUT PRODUCTION RATHER THAN

PRICE. THERE ARE IN FACT SOUND ECONOMIC REASONS TO CUT PRODUCTION. PRODUCERS ARE BETTER OFF KEEPING MORE OF OIL IN GROUND THAN TAKING PAYMENT IN NOTES THREATENED BY INFLATION.

15. SWEDEN EXPECTS LITTLE ARAB INVESTMENT.

WICKMAN SAID THERE HAD BEEN NO SPONTANEOUS INFLOW OF ARAB MONEY INTO SWEDEN AS THERE HAS BEEN INTO SWITZERLAND. SUDSVENSKA KRAFT AB, POWER COMPANY IN MALMO, HAS TAKEN LOAN DENOMINATED IN SEVERAL ARAB CURRENCIES. PERHAPS THERE WILL BE OTHER LOANS LIKE THIS ONE. BUT WICKMAN DID NOT EXPECT THAT OPEC COUNTRIES WOULD BE INVESTING MUCH IN SWEDEN.

16. INTERNATIONAL MONETARY REFORM SIDETRACKED.

WICKMAN AGREED THAT THE ABRUPT RISE IN OIL PRICES HAD ENDED FOR A WHILE FURTHER EFFORTS AT INTERNATIONAL MONETARY REFORM. BUT HE DID LOOK FORWARD TO MORE COOPERATION BETWEEN LIMITED OFFICIAL USE

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CENTRAL BANKS. DISCUSSIONS ARE ALREADY GOING ON, AIMED AT IMPROVEMENT OF GROUND RULES REGARDING EXCHANGE-RATE INTERVENTION. HE THOUGHT THERE WAS NOT JUSTIFICATION FOR DEEP DROP IN VALUE OF DOLLAR, FOR EXAMPLE.

16. COMMENT. WICKMAN, SHARP AND PERSONABLE, FAITHFULLY FOLLOWS STANDARD SWEDISH POSITION CALLING FOR COLLABORATION WITH OPEC AND WARNING AGAINST ACTIONS THAT MIGHT BE OR SEEM CONFRONTATIVE (REFTELS). I HAVE UNHAPPY FEELING THAT GOS IS CAREFULLY HEDGING, JOINING IEA FOR WHATEVER SECURITY THAT ORGANIZATION MAY SOMETIME BE ABLE TO AFFORD IT AND TAKING CARE TO PROTECT ITS IMAGE AS PERCEIVED BY PRODUCERS. I THINK GOS ADVERTISEMENT APPEARING IN WALL STREET JOURNAL DECEMBER 16 IS INSTRUCTIVE ON THIS POINT. IN IT, PRIME MINISTER PALME AND WICKMAN IN SEPARATE PIECES CONVEY UNMISTAKABLY TO WHOEVER MAY READ IT, INCLUDING ARABS, THAT SWEDEN HOLDS ITSELF MUCH APART FROM FIRM U.S. POSITION VIS-A-VIS OPEC

OPPOSES "CONFRONTATION" AND SEEKS "COOPERATION".
STRAUSZ-HUPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ENERGY, PETROLEUM PRODUCTION, CONSUMER PROTECTION, FOREIGN POLICY POSITION, NEGOTIATIONS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 31 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STOCKH05734
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Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
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Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STOCKHOLM 5666
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 28 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 MAR 2002 by shawdg>; APPROVED <28 MAY 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: VIEWS OF KRISTER WICKMAN, GOVERNOR BANK OF SWEDEN
TAGS: EFIN, ENRG, EC, SW, OECD, IMF
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005